ANNUAL REPORT 1971

INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED

INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED
General Office: 208 Hillyard Street, Hamilton, Ontario

ANNUAL REPORT for the year ended October 31, 1971

International Harvester Company of Canada, Limited specializes in the designing, manufacturing, selling and servicing of power equipment. The product range includes trucks, farm equipment, construction and industrial equipment, lawn and garden equipment and turbine engines. The Company provides financial services for dealers and customers through its finance and leasing subsidiaries.

The General Office is in Hamilton, Ontario, and District Offices are located in seven key cities across Canada. Manufacturing plants are in Hamilton and Chatham, Ontario; Candiac, Quebec, and Vancouver, B.C.

The Company's products are sold and serviced by dealers, distributors and Company-owned branches and stores across the country.

Through its broad product range the Company is involved with many industries and with almost every segment of the economy. By the nature of its products and services there is a close relationship between the Company and the owners and operators of its equipment. Some aspects of this relationship are illustrated in this report.

CONTENTS

FINANCIAL HIGHLIGHTS

	1971	1970
Sales	$278,929,000	$249,307,000
Net Income	$ 8,181,000	$ 2,031,000
Per cent of Sales	2.93%	.81%
Per cent of Equity Capital — Beginning of Year	8.92%	2.25%
Dividends Paid	$ 2,175,000	$ 600,000
Income Retained	$ 6,006,000	$ 1,431,000
Taxes — Federal, Provincial and Local	$ 23,960,000	$ 14,126,000
Capital Expenditures	$ 1,584,000	$ 3,845,000
Depreciation	$ 3,360,000	$ 3,715,000
Long-term Debt	$ 1,998,000	$ 4,198,000
Equity Capital at End of Year	$ 97,688,000	$ 91,682,000
Average Number of Employees	4,812	5,828

DIRECTORS AND OFFICERS at December 31, 1971

BOARD OF DIRECTORS

Charles C. Brannan	Walter J. Guziak
Robert H. Burnside	Brooks McCormick
William E. Callahan	Robert D. Musgjerd
William R. Fleming	W. Norman Smith

OFFICERS

Robert D. Musgjerd	*President*
William R. Fleming	*Vice President, Motor Truck Sales*
William H. Hagerman	*Vice President, Manufacturing and Employee Relations*
W. Norman Smith	*Vice President, Finance*
John L. Wade	*Vice President, Farm Equipment and Construction Equipment Sales*
Walter J. Guziak	*Comptroller*
William Haslam	*Treasurer*
Earle L. Edmonds	*Secretary*

OTHER EXECUTIVES

W. Norman Buckingham	*Manager, Public Relations*
T. Donald Husband	*Manager, Motor Truck Sales*
Alex R. McCombe	*Manager, Construction Equipment Sales*
Charles J. Munro	*Manager, Farm and Industrial Equipment Sales*
Lawrence J. Murphy	*Manager, Credit and Collection*
Ronald E. Penfold	*Manager, Engineering*
Charles W. Wolfard	*Manager, Supply and Inventory*

OFFICERS AND EXECUTIVES

W. H. Hagerman, C. W. Wolfard, R. E. Penfold.

C. J. Munro, J. L. Wade, A. R. McCombe.

W. J. Guziak, W. N. Buckingham, E. L. Edmonds, R. D. Musgjerd.

W. R. Fleming, T. D. Husband.

W. N. Smith, L. J. Murphy, W. Haslam.

PRESIDENT'S LETTER

The economy experienced moderate growth in 1971 and the business of the industries which we serve improved over the prior year. The market for trucks was very good, the western agricultural economy turned upwards and the construction industry performed well.

Our domestic sales were higher than in any previous year. We maintained close control of Company and dealer inventories, continued our profit improvement programs and completed further Value Engineering projects designed to reduce product costs. All these factors contributed toward increased profits; the income generated this past year was substantially higher than it has been for several years.

More new trucks were sold in 1971 than in 1970. We maintained our share of this business and increased our market participation in heavy-duty and diesel trucks. Several new and important models were introduced during the year, further strengthening our position as the leader in this field. Our subsidiary Pacific Truck and Trailer also had a successful year in 1971.

It has been very gratifying to see the turn around in western agriculture. The return of confidence on the part of the farmers and those in related secondary industries has had a salutary effect on the economy. Our retail sales of farm equipment were the highest since 1968.

We were particularly pleased with the results of our industrial tractor and equipment business in 1971. Sales of these machines along with lawn and garden products far exceeded those of any prior year.

The forest industries were adversely affected by the increased value of the Canadian dollar. The situation limited our sales of construction equipment to this industry but, because of our success in penetrating other markets, we had a considerable increase in sales of this product line.

In 1971 all of our major labour contracts expired. Work stoppages and lengthy strikes in our manufacturing plants resulted in lost sales, particularly to foreign markets, and export sales were lower than in 1970.

With a continued growth in the economy, the outlook for 1972 is promising. Monetary restrictions and interest rates have eased. These factors have a major influence on our business and on that of our customers.

Truck sales should increase along with the growth in the economy and population. The acceptance among fleet operators of our new heavy-duty models is reflected in a large bank of orders.

Farm equipment sales are expected to continue the upward trend in 1972. Our dealer inventories are at a satisfactory level. The increasing practice of diversified farming in Western Canada, as well as improved grain sales, are indicators of a more stable market for our products.

Improvement in the sale of construction equipment and industrial equipment will come from highway projects, hydroelectric programs and new construction.

While we look forward to an increase in our total sales, improvement in profits will be a challenge. Price control in the U.S. and its influence on prices in Canada will limit our ability to recover increases in manufacturing costs. Exports to the U.S., which account for a major portion of our total production, could be adversely affected by current and proposed U.S. economic and monetary policies.

The Board of Directors and members of management join me in expressing appreciation to all International Harvester employees, distributors and dealers whose efforts and co-operation contributed to our success in the past year. We look forward to their continued support in 1972.

R. D. Musgjerd

The trucking industry is involved in every facet of modern living. Using a broad range of specialized vehicles, the people of the industry make a major contribution to the nation's economy.

SUMMARY OF OPERATIONS

Record sales for trucks in 1971. Penetration increased in heavy-duty market.

Domestic sales of International trucks, service parts and service in 1971 exceeded any previous year. Export sales of trucks were down slightly from the prior year.

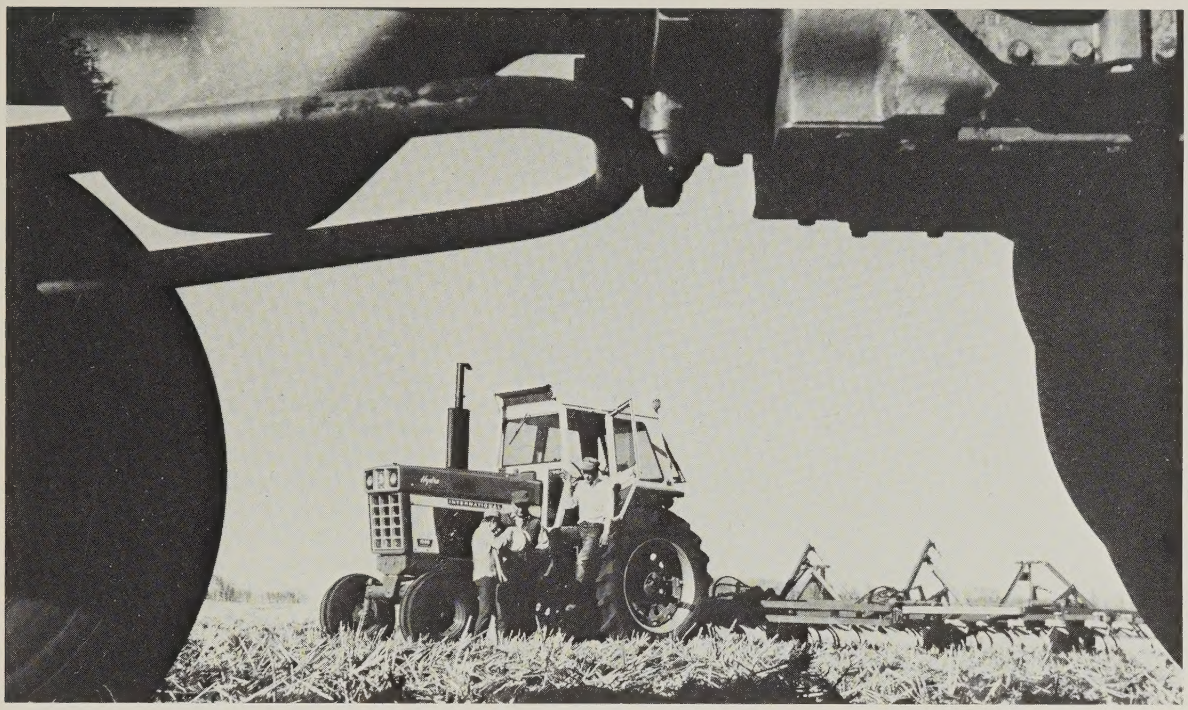
The market for trucks in Canada was favourable in 1971 and overall industry sales were up 7.4 per cent. Sales of our trucks were up 20.3 per cent primarily as a result of the increased demand for heavy-duty and diesel models and our growing penetration of that market. Almost 25 per cent of all heavy-duty units registered in 1971 were International trucks as our historical leadership continued. Another factor which contributed to our success was the availability of the full line of Cargostar models for the entire year. These medium to heavy-duty cab-over-engine models have proven to be very popular and have established International as the leader in this field. The Cargostar is a Canadian truck which is engineered and manufactured in Chatham, Ontario for sale throughout the world.

Production at our Chatham plant was interrupted by a strike in August of 1971. Some of the production lost at that time was recovered but we did experience a decline in export sales of trucks. Almost 60 per cent of the trucks manufactured at this plant are exported, primarily to the U.S. We expect that 1972 export sales will return to at least the level of 1970.

The future market for trucks in Canada will continue to expand along with the growth of the country. Customer acceptance of the complete line of International trucks coupled with our nation-wide service and distribution system should permit us to increase both total sales and market participation in the coming year.

Farm equipment market strengthens. IH sales ahead of industry trend.

The farm equipment industry, which had experienced a steady decline for three years, rebounded in 1971 and there was a strengthening of the market for farm machinery. The western agricultural economy moved upward on the strength of higher grain sales, greater diversification of crops, lower interest rates and favourable weather. The generally optimistic attitude that



Use of modern, high capacity equipment is vital to the efficiency of the farming industry. Management and operation by the family unit, always the strength of our agricultural economy, continues in importance as individual operations increase in size.

these factors generated, resulted in the farmers' willingness to invest more in agricultural equipment. Our dealers responded to this situation and retail sales of IH farm equipment and parts stayed ahead of the general industry trend through 1971.

Increased retail sales in 1971 resulted in lower dealer inventories particularly of older goods. This in turn has enabled most dealers to begin the coming year in a stronger financial position.

An important factor in the rise of our sales in 1971 was the introduction of a new line of tractors. The sales impetus provided by these machines is evident in a considerable increase in market participation.

A prolonged strike at our Hamilton plant which continued through the end of the fiscal year limited export sales of farm equipment. More than 70 per cent of the plant's production is for U.S. and overseas markets. Our export sales of farm equipment were reduced by 26 per cent.

Current expectations are that the farm equipment industry in 1972 will continue to improve.

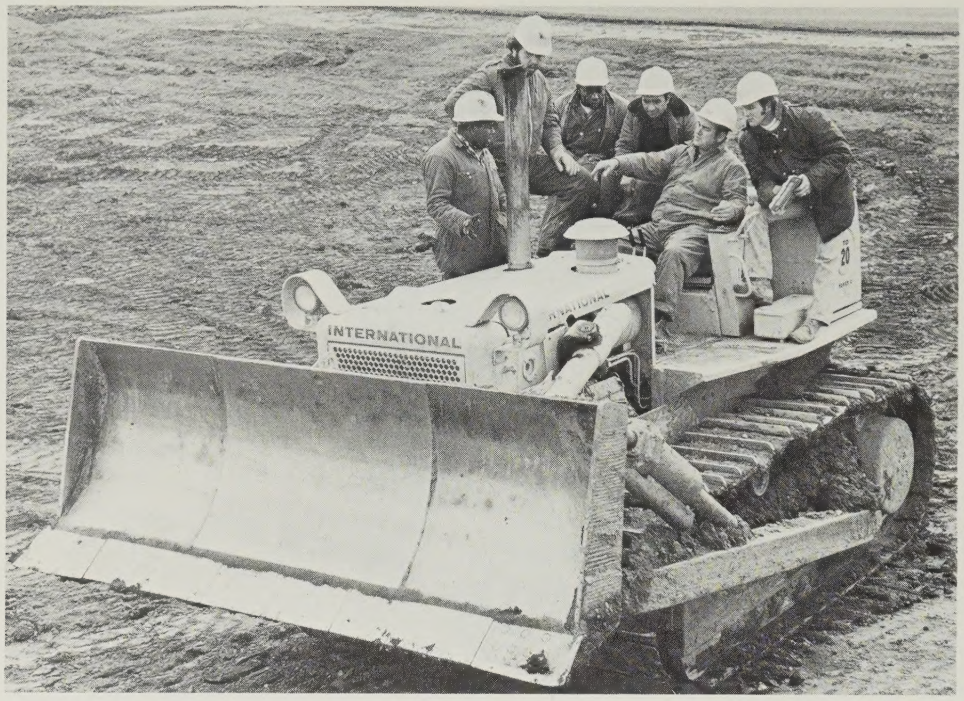
Sales of industrial and lawn & garden equipment highest ever.

Sales of IH tractors and other machines for industrial use reached record levels in 1971. This product line has grown rapidly as we regularly introduce new and varied products. The demand for IH industrial equipment will further expand as the general economy grows and as we improve and strengthen our sales outlets.

Sales of International lawn and garden equipment, which includes the ever popular Cub Cadet series, also showed improvement in 1971. This part of our business should continue its growth as we introduce new models and lines of equipment for the consumer market.

Construction equipment sales increase by 18 per cent.

Our construction equipment sales were up sharply in 1971, although the industry sales were about the same as in 1970. Much of our success can be attributed to the recognition of the new standard of value in our product line. The increasing



Modern equipment and knowledgeable people are both essential to the construction industry. The importance of these factors is recognized by Sheridan College, in Ontario, where regular operator courses are conducted using the latest equipment. These students are being prepared to join industry as trained operators.

strength and expanded facilities of our distributor organization also contributed significantly to our results.

The heavy construction industry was relatively buoyant in 1971 but the woods industries on which we normally rely for about 40 per cent of our sales were somewhat depressed. Export markets for their products which were initially threatened by the rise in the value of the Canadian dollar were further jeopardized by the uncertainties inherent in recent monetary policies in the U.S. These factors have caused severe cutbacks in production and resultant curtailment of expenditures for capital equipment by these industries.

The International line of crawler tractors, loaders and other equipment together with the Hough rubber-tired loaders manufactured at our Candiac, Quebec plant constitute a complete line of construction equipment. Our distributor organization operates in all parts of the country. This product and market coverage will enable us to advance in the construction equipment field and we expect another year of substantial growth in 1972.

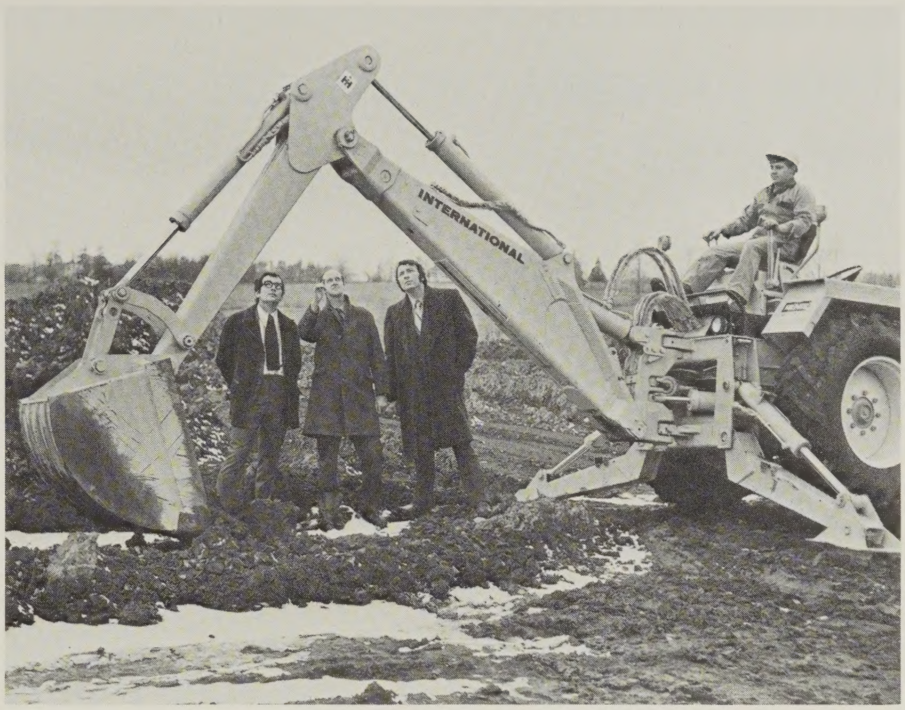
Pacific Truck & Trailer had modest growth in 1971.

Our wholly-owned subsidiary in Vancouver which designs, manufactures and sells heavy duty logging trucks, trailers and related equipment experienced moderate growth in 1971. The B.C. logging industry which has been the principal market for these trucks was not particularly buoyant in the past year.

Further growth of this company will occur as the local demand expands, as the sales and distribution facilities of IH of Canada are equipped to sell and service these products and as further export markets are developed.

Strong demand for Solar products.

The demand for Solar gas turbine engines and compressors was strong in 1971 and sales of these products were substantially higher than in any previous year. Solar products which are developed and built by International Harvester Company are becoming increasingly popular for stationary power applications. The low cost of operating and maintaining this type of power makes it particularly applicable in the western oil fields and for use as standby power for the communications industry.



Productive equipment is of high importance to contractors in the construction and service industries. Whether he buys or leases, dealer "on site" demonstrations of new and diversified products are frequently a contractor's first step in making plans and decisions.

Several new Company sales and service facilities opened.

A large modern truck retail outlet providing sales and service in the eastern area of Montreal was opened late in the year at Ville d'Anjou. Other retail facilities were opened in 1971 at Sarnia, Ontario; St. John's, Newfoundland; Grande Prairie and Drumheller, Alberta; Balgonie, Saskatchewan and in suburban Ottawa. These operations will provide complete sales and service facilities to customers in their respective areas.

Reduced employment levels in 1971.

Average total employment of the Company declined from 5,828 in 1970 to 4,812. Our major manufacturing plants experienced strikes which limited production and employment and a major strike at International Harvester Company plants in the U.S. curtailed production due to lack of components.

New contracts were negotiated at all our manufacturing operations. Negotiations continue at our master parts depot and at a number of service centers.

Compensation paid to employees in 1971 totalled $43,000,000 with an additional amount of $8,000,000 paid out for insurance, medical and pension plans and other fringe benefits.

Executive changes.

William H. Hagerman was elected vice president with responsibility for manufacturing operations at Candiac, Chatham and Hamilton and for Employee Relations.

John L. Wade was elected vice president, with responsibility for Farm Equipment and Construction Equipment Sales.

W. Duncan Drummond, formerly vice president of operations and a director, resigned, and accepted an executive position with International Harvester Company in the United States.

Daryl B. Oldaker resigned from the Board of Directors. Mr. Oldaker who was vice president and general counsel of International Harvester Company, has retired.

W. Norman Buckingham was appointed manager, Public Relations.

AUDITORS' OPINION

DELOITTE, HASKINS & SELLS

Offices across Canada and associated firms throughout the world *Chartered Accountants*

105 MAIN STREET EAST, HAMILTON, ONTARIO

To the Shareholders of
International Harvester Company of Canada, Limited:

We have examined the Statement of Financial Condition of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1971 and the Statement of Income and Income Retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have made a similar examination of the Statement of Financial Condition of the Company's wholly-owned non-consolidated finance subsidiaries, International Harvester Credit Corporation of Canada Limited and Harcan Leasing Limited as at October 31, 1971.

In our opinion these financial statements present fairly (a) the financial position of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1971 and the results of their operations for the year then ended, and (b) the financial position of the Company's wholly-owned non-consolidated finance subsidiaries, International Harvester Credit Corporation of Canada Limited and Harcan Leasing Limited as at October 31, 1971, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

December 3, 1971.

Deloitte, Haskins & Sells

BASIS OF FINANCIAL STATEMENTS

CONSOLIDATION POLICY

Pacific Truck and Trailer Manufacturing Limited is consolidated in this report. The net income of the wholly-owned finance subsidiaries, International Harvester Credit Corporation of Canada Limited and Harcan Leasing Limited, and their income retained are combined herein with the consolidated group. The equity capital of these subsidiaries appears as an investment in the Statement of Financial Condition.

A separate Statement of Financial Condition of International Harvester Credit Corporation of Canada Limited appears on page 16.

INVENTORY VALUATION

Inventories have been valued at the lower of cost or market, market being considered as replacement cost, which does not exceed net realizable value.

DEPRECIATION

Depreciation has been computed by the declining balance method at rates generally calculated to absorb the cost of property during the period of its useful life.

DEFERRED INCOME TAXES

The Company and its subsidiaries follow the accounting practice of providing the total amount of income taxes applicable to the income reported in the year regardless of the year in which the income taxes are actually payable.

STATEMENT OF INCOME AND INCOME RETAINED

For the Years Ended October 31, 1971 and 1970

	1971	1970
SALES AND OTHER REVENUES		
Sales		
Dealers and users in Canada	$202,076,981	$158,730,178
International Harvester Company	74,220,549	88,723,804
Other affiliated companies and jobbers	2,631,740	1,852,947
	278,929,270	249,306,929
Net income of finance subsidiaries (pages 13 and 16)	2,114,662	1,618,297
Other income, less sundry income deductions	435,829	(360,372)
TOTAL	281,479,761	250,564,854
COSTS AND EXPENSES		
Cost of sales	238,753,397	221,825,134
Selling and administrative expenses	23,036,912	20,410,841
Charges for financing services on wholesale notes sold to the finance subsidiary	3,853,355	4,761,906
Interest expense	911,774	1,588,703
Taxes on income (page 12)	6,743,403	(52,469)
TOTAL	273,298,841	248,534,115
NET INCOME	8,180,920	2,030,739
DIVIDENDS PAID	2,175,000	600,000
INCOME RETAINED — FOR THE YEAR	6,005,920	1,430,739
— AT BEGINNING OF THE YEAR	76,681,830	75,251,091
— AT END OF THE YEAR	$ 82,687,750	$ 76,681,830

The information referred to by page number above and the Basis of Financial Statements presented on page 8 are an integral part of this statement.

STATEMENT OF FINANCIAL CONDITION

October 31, 1971 and 1970

ASSETS

	1971	1970
CURRENT ASSETS		
Cash	$ 412,281	$ 98,658
Marketable securities — at cost which approximates market	16,970,792	—
Demand notes receivable from finance subsidiaries	2,590,000	6,200,000
Receivables		
Trade accounts	15,623,558	11,721,395
Miscellaneous	1,723,493	1,631,260
Due from affiliated companies	23,024	5,601,923
Due from finance subsidiaries	471,512	1,984,347
Deferred income taxes	821,000	1,144,288
Inventories	49,787,577	53,177,916
TOTAL CURRENT ASSETS	88,423,237	81,559,787
INVESTMENT IN FINANCE SUBSIDIARIES		
(Statements of Financial Condition on pages 13 and 16)		
Equity in net assets	16,624,868	15,481,206
OTHER ASSETS	4,015,729	3,851,002
PROPERTY (page 13)		
Real estate, machinery and equipment — at cost	64,784,252	66,604,924
Less accumulated depreciation	39,168,954	37,628,899
NET PROPERTY	25,615,298	28,976,025
TOTAL ASSETS	$134,679,132	$129,868,020

The information referred to by page number above and the Basis of Financial Statements presented on page 8 are an integral part of this statement.

LIABILITIES AND EQUITY CAPITAL

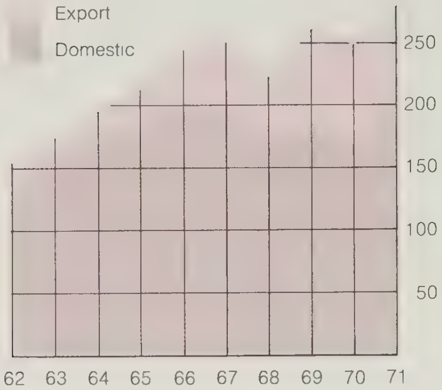
	1971	1970
CURRENT LIABILITIES		
Bank indebtedness	$ 1,400,000	$ 2,373,356
Notes payable	—	6,000,000
Current invoices and accruals	15,132,333	13,717,688
Accrued taxes	8,239,433	1,532,583
Current maturities of long-term debt	2,190,675	1,919,500
Due to affiliated companies	3,718,583	7,821,800
Due to finance subsidiaries	3,847,081	—
TOTAL CURRENT LIABILITIES	34,528,105	33,364,927
LONG-TERM DEBT		
5¼% notes—maturing November 1, 1973 payable in equal semi-annual instalments	1,000,000	1,800,000
6% note—maturing December 31, 1972 payable in semi-annual instalments (U.S. 1971—$750,000; 1970—$2,000,000)	813,525	2,169,400
6% debenture—maturing November 15, 1977 payable in monthly instalments	184,700	228,200
TOTAL LONG-TERM DEBT	1,998,225	4,197,600
DEFERRED INCOME TAXES	465,052	623,663
EQUITY CAPITAL		
Capital stock		
Authorized, issued and fully paid—150,000 shares of $100 par value	15,000,000	15,000,000
Income retained (page 12)	82,687,750	76,681,830
TOTAL EQUITY CAPITAL	97,687,750	91,681,830
TOTAL LIABILITIES AND EQUITY CAPITAL	$134,679,132	$129,868,020

Approved by the Board: R. D. Musgjerd, Director
W. J. Guziak, Director

FINANCIAL REVIEW

SALES

Millions of dollars

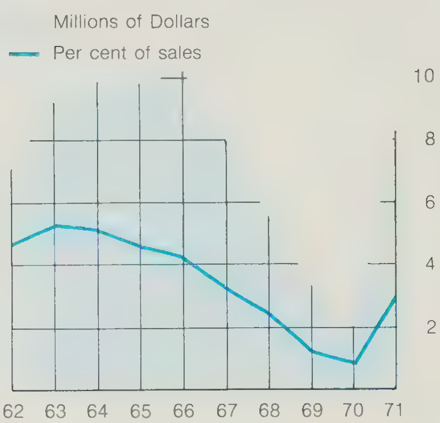


Total sales were $278,929,000 in 1971. This is a record high for the Company and is $29,622,000 or almost 12 per cent more than in the previous year. Export sales were lower in 1971 due primarily to strikes and subsequent loss of production. Domestic sales were up in all product lines.

INCOME

Earnings were $8,181,000 in 1971. This was up from $2,031,000 in 1970. The increase was achieved through much higher domestic sales, closely controlled inventory levels and continued strong emphasis on profit improvement programs.

NET INCOME



INCOME RETAINED

The balance in Income Retained increased from $76,682,000 at October 31, 1970 to $82,688,000 at October 31, 1971. The amount retained for the 1971 fiscal year was $6,006,000. This compares with $1,431,000 for the prior year.

At October 31, 1971 $35,293,000 of International Harvester Company of Canada, Limited Income Retained was restricted as to payment of cash dividends by a long-term debt agreement covering its 5¼% notes.

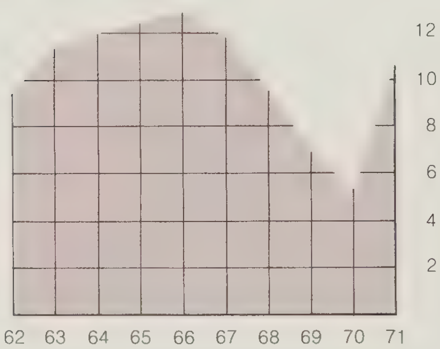
WORKING CAPITAL

Working capital of the Company increased by $5,700,000 in 1971, from $48,195,000 at the beginning of the year, to $53,895,000 at the end of the year. An analysis of working capital added by operations of the past two years appears below:

	1971	1970
Net income of the consolidated companies	$ 6,066,000	$ 412,000
Dividends from finance subsidiaries	1,210,000	1,200,000
Depreciation	3,360,000	3,715,000
Total	$10,636,000	$ 5,327,000

WORKING CAPITAL ADDED BY OPERATIONS

Millions of dollars

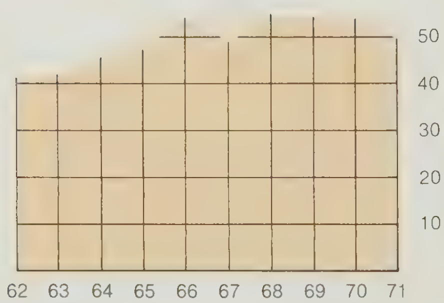


INVENTORIES

Year end inventories totalled $49,788,000 which was 6.3 per cent or $3,390,000 less than at October 31, 1970. The average level of inventories was $57,585,000 in 1971, down from $64,771,000 in the prior year. Inventories consist of approximately 67 per cent finished machines, attachments and service parts; the remainder being raw materials, work in process and supplies.

YEAR-END INVENTORIES

Millions of dollars



INCOME TAXES

The following schedule shows the components of income tax expense:

	1971	1970
Current	$ 6,578,726	$ 283,034
Deferred — net	164,677	(335,503)
Total	$ 6,743,403	$ (52,469)

Tax audits have been completed and settled through 1968.

CAPITAL EXPENDITURES

Capital expenditures were $1,584,000 in 1971. The effects of these expenditures and of other factors, including depreciation, upon the property account of the Company are displayed in the accompanying schedule.

Net property at October 31, 1970		$28,976,000
Changes during 1971 fiscal year		
Capital additions	$ 1,584,000	
Depreciation	(3,360,000)	
Net book value of property dispositions	(1,585,000)	
Net decrease during the year		(3,361,000)
Net property at October 31, 1971		$25,615,000

Property dispositions above include property valued at $906,000 which was transferred to Harcan Leasing Limited.

Capital expenditures are expected to be substantially higher in 1972. At October 31, 1971 appropriated balances carried forward totalled $1,163,000. Commitments on appropriations in progress at October 31, 1971 approximated $481,000.

LEASING SUBSIDIARY

During the year, the Company formed a leasing subsidiary, Harcan Leasing Limited. The income of this subsidiary in 1971 was $11,837. A summary statement of financial condition at October 31, 1971 is as follows:

Assets (equipment and property leased to parent and dealers)	$ 906,502
Leased vehicles (net of depreciation $111,510)	589,522
Other assets	322,195
Total assets	1,818,219
Liabilities (includes $1,471,000 payable to affiliates)	1,577,382
Equity capital (includes capital stock — $239,000)	$ 240,837

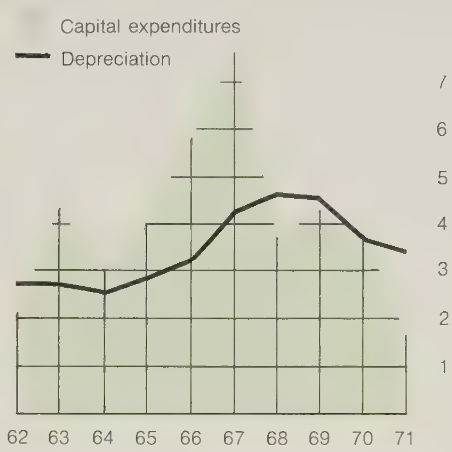
RETIREMENT PLANS

The Company has retirement plans in effect for eligible salaried and hourly-rated employees. Past service costs are being funded over twenty-five years from January 1, 1964. The estimated unfunded liability in respect of past service benefits at October 31, 1971, after giving effect to changes in actuarial assumptions, was $16,300,000 of which $12,800,000 was vested in accordance with the terms of the plan, but for which the Company does not have a legal obligation. Contributions charged to income by the Company in respect of these plans were:
1971 — $2,250,000; 1970 — $2,412,000

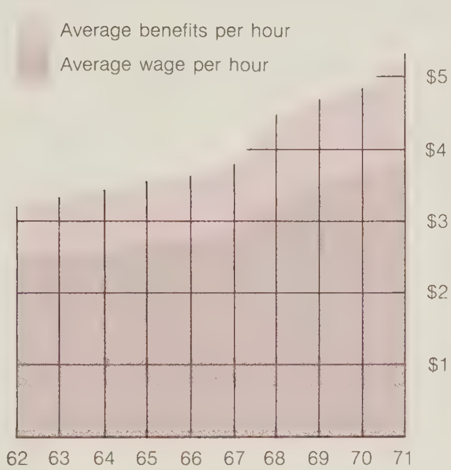
A change in actuarial assumptions had the effect of creating an experience surplus of which approximately $700,000 and $800,000 has been used to reduce Company contributions to the plans during 1971 and 1970 respectively.

CAPITAL EXPENDITURES AND DEPRECIATION

Millions of dollars

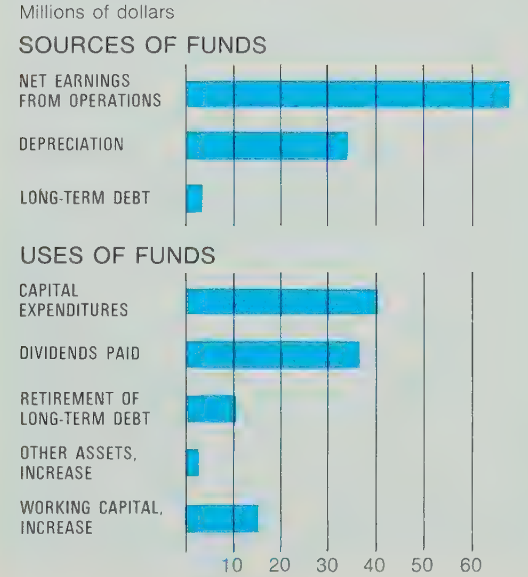


EMPLOYEE AVERAGE HOURLY EARNINGS



FUNDS STATEMENT, 1962-1971

Millions of dollars



STATISTICAL DATA (Dollar amounts in millions)

	1971	1970	1969
SALES BY AREA OF FINAL SALE			
Canada	$202.1	$158.7	$184.4
United States	74.2	88.7	74.5
Europe and Africa	.6	.4	.3
Latin America	.3	1.0	1.1
Pacific Area	1.7	.5	.6
Total	$278.9	$249.3	$260.9
NET INCOME			
Amount	$ 8.2	$ 2.0	$ 3.3
Per cent of sales	2.93%	.81%	1.25%
Per cent of equity capital	8.92%	2.25%	3.63%
WORKING CAPITAL CHANGES			
From operations — Note 1	$ 10.6	$ 5.3	$ 6.9
Added by increase in long-term debt	—	.2	—
Net effect of changes in other assets, etc.	1.1	(1.5)	.1
Total	11.7	4.0	7.0
Used for:			
Capital expenditures	1.6	3.8	4.3
Common stock dividends	2.2	.6	2.9
Retirement of long-term debt	2.2	1.9	1.9
Total	6.0	6.3	9.1
Increase or (decrease)	$ 5.7	$ (2.3)	$ (2.1)
DEPRECIATION	$ 3.4	$ 3.7	$ 4.5
EQUITY CAPITAL AT END OF YEAR — OCTOBER 31			
Common stock	$ 15.0	$ 15.0	$ 15.0
Income retained	82.7	76.7	75.3
Total equity capital	$ 97.7	$ 91.7	$ 90.3
REPRESENTED BY			
Current assets	$ 88.4	$ 81.6	$ 77.8
Less: Current liabilities	34.5	33.4	27.3
Working capital	53.9	48.2	50.5
Net property	25.6	29.0	29.5
Investment in finance subsidiaries	16.6	15.5	15.1
Other assets	4.0	3.8	1.6
Total	100.1	96.5	96.7
Less:			
Long-term debt	2.0	4.2	5.9
Deferred income taxes	.4	.6	.5
Provision for employees' retirement benefits	—	—	—
Total	2.4	4.8	6.4
Total net assets	$ 97.7	$ 91.7	$ 90.3
RATIOS			
Current assets to current liabilities	2.6-1	2.4-1	2.9-1
Equity capital to long-term debt	48.9-1	21.8-1	15.3-1

Note 1. On page 12 under the section "Working Capital" there is shown, as to 1971 and 1970, an analysis of working capital generated by operations.

1968	1967	1966	1965	1964	1963	1962
$169.0	$193.8	$200.9	$186.5	$170.1	$149.8	$129.7
51.7	53.7	42.6	25.0	22.6	22.9	22.9
.9	.8	.4	.4	.7	.7	.7
.7	.6	.5	.6	.9	.5	.2
.9	1.1	1.3	1.1	1.1	.5	.2
$223.2	$250.0	$245.7	$213.6	$195.4	$174.4	$153.7
$ 5.6	$ 8.0	$ 10.2	$ 9.8	$ 9.9	$ 9.3	$ 7.1
2.51%	3.21%	4.15%	4.59%	5.07%	5.33%	4.62%
6.52%	9.87%	13.28%	13.12%	14.10%	14.51%	11.91%
$ 9.5	$ 11.8	$ 12.9	$ 12.4	$ 12.0	$ 11.4	$ 9.4
3.5	—	—	—	—	—	—
.3	.2	(1.2)	.2	(.6)	(1.5)	.1
13.3	12.0	11.7	12.6	11.4	9.9	9.5
3.7	7.6	5.8	4.0	3.0	4.3	2.1
1.6	3.6	5.6	7.7	5.4	5.0	2.6
—	.8	.4	.8	.8	.8	.8
5.3	12.0	11.8	12.5	9.2	10.1	5.5
$ 8.0	$ —	$ (.1)	$ .1	$ 2.2	$ (.2)	$ 4.0
$ 4.6	$ 4.2	$ 3.2	$ 2.8	$ 2.5	$ 2.6	$ 2.6
$ 15.0	$ 15.0	$ 15.0	$ 15.0	$ 15.0	$ 15.0	$ 15.0
74.8	70.8	66.4	61.8	59.7	55.2	49.1
$ 89.8	$ 85.8	$ 81.4	$ 76.8	$ 74.7	$ 70.2	$ 64.1
$ 78.6	$ 65.3	$ 66.7	$ 69.8	$ 65.5	$ 64.4	$ 61.1
26.0	20.7	22.1	25.1	20.9	22.0	18.6
52.6	44.6	44.6	44.7	44.6	42.4	42.5
29.8	31.0	27.7	25.3	24.2	23.9	22.7
14.2	13.6	13.1	11.6	11.3	9.9	9.5
1.5	1.6	1.6	1.1	1.1	1.1	.9
98.1	90.8	87.0	82.7	81.2	77.3	75.6
7.7	4.2	5.0	5.4	6.2	7.0	7.8
.6	.8	.6	.5	.3	.1	—
—	—	—	—	—	—	3.7
8.3	5.0	5.6	5.9	6.5	7.1	11.5
$ 89.8	$ 85.8	$ 81.4	$ 76.8	$ 74.7	$ 70.2	$ 64.1
3.0-1	3.2-1	3.0-1	2.8-1	3.1-1	2.9-1	3.3-1
11.7-1	20.4-1	16.3-1	14.2-1	12.0-1	10.0-1	8.2-1

STATEMENT OF FINANCIAL CONDITION October 31, 1971 and 1970

ASSETS

	1971	1970
CURRENT ASSETS		
Cash	$ —	$ 246,964
Notes receivable		
Wholesale (less deferred discounts and unearned interest of $435,597 in 1971 and $463,339 in 1970)	48,212,287	49,543,812
Retail (less unearned finance charges of $9,260,550 in 1971 and $9,176,634 in 1970)	64,648,288	61,435,338
	112,860,575	110,979,150
Less allowance for losses	1,719,076	1,715,157
Notes receivable (net)	111,141,499	109,263,993
Due from parent and affiliated companies	4,656,747	—
Deferred income taxes	899,000	897,000
TOTAL CURRENT ASSETS	116,697,246	110,407,957
PREPAID INTEREST AND OTHER ASSETS	457,090	434,238
TOTAL ASSETS	$117,154,336	$110,842,195

LIABILITIES AND EQUITY CAPITAL

			1971	1970
CURRENT LIABILITIES				
Notes and loans due within one year (includes due to affiliates of $636,375 in 1971)			$ 57,438,556	$ 59,785,812
Demand notes payable—parent company			2,400,000	6,200,000
Accounts payable (including parent company of $1,984,347 in 1970)			70,025	2,059,575
Accrued taxes			457,186	—
Accrued interest			707,857	615,214
Dealers' contingency credits			1,260,508	1,371,715
TOTAL CURRENT LIABILITIES			62,334,132	70,032,316
SENIOR INDEBTEDNESS				
Notes and debentures—5¾% to 9½% due 1984 or prior			29,325,360	16,217,860
SUBORDINATED INDEBTEDNESS				
Notes—6% to 7¾% due 1984 or prior (includes due to affiliates of U.S. $6,600,000)			9,110,813	9,110,813
EQUITY CAPITAL				
Capital stock				
Authorized—250,000 shares of $100 par value—issued and fully paid 100,000 shares			10,000,000	10,000,000
Income retained	1971	1970		
Balance, beginning of year	$ 5,481,206	$ 5,062,909		
Net income for the year	2,102,825	1,618,297		
Less cash dividends	(1,200,000)	(1,200,000)		
Balance, end of year			6,384,031	5,481,206
TOTAL EQUITY CAPITAL			16,384,031	15,481,206
TOTAL LIABILITIES AND EQUITY CAPITAL			$117,154,336	$110,842,195

Approved by the Board: W. N. Smith, Director
R. D. Musgjerd, Director

Basis of Financial Statements

RECEIVABLES. At October 31, 1971 wholesale notes receivable included $2,905,639 which will mature after October 31, 1972, of which none will mature after October 31, 1973 and retail notes receivable included $39,247,934 maturing after October 31, 1972, of which $15,774,521 will mature after October 31, 1973.

DEFERRED INCOME TAXES. The Company follows the accounting practice of providing the total amount of income taxes applicable to the income reported in the year regardless of the year in which the income tax is actually payable.

NET INCOME. Earnings on wholesale notes are derived from carrying charges based on the monthly note balances and from a discount which the Company takes into income upon settlement of the notes.

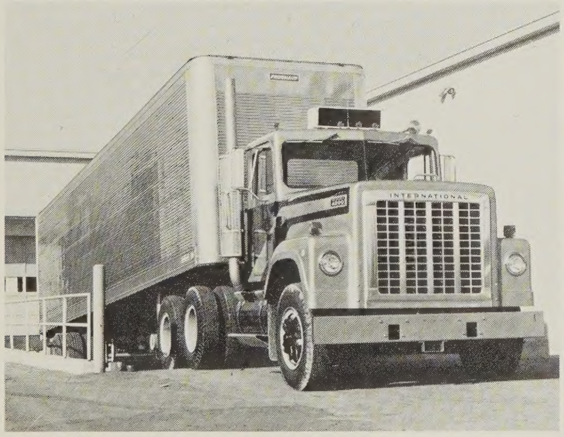
Finance charges included in retail notes are taken into income over the life of the notes.

INDEBTEDNESS. Dividend distribution under the provisions of the loan agreements relating to the senior and subordinated indebtedness is restricted to approximately $2,150,000 at October 31, 1971 and $1,250,000 at October 31, 1970.

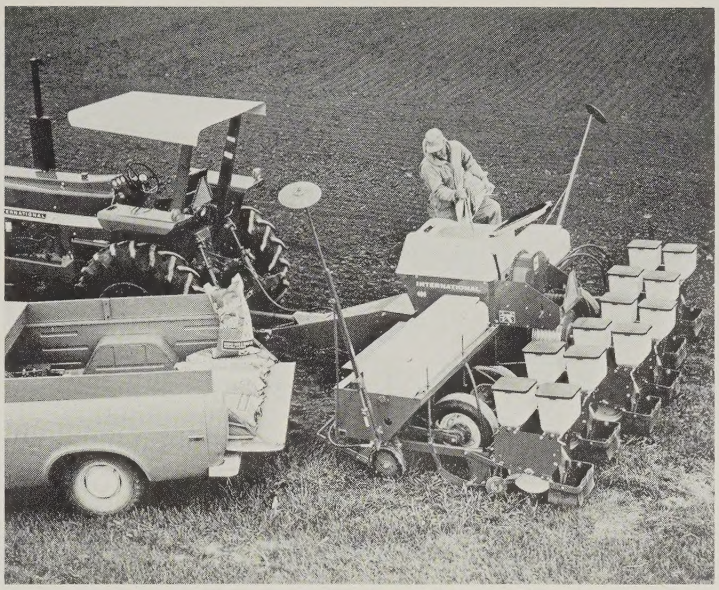
NEW PRODUCTS

Modern in appearance and design, the 560 Pay loader, built at Candiac, Quebec, incorporates new concepts in operator comfort and safety. Hough Pay loaders have long been the standard of the industry.

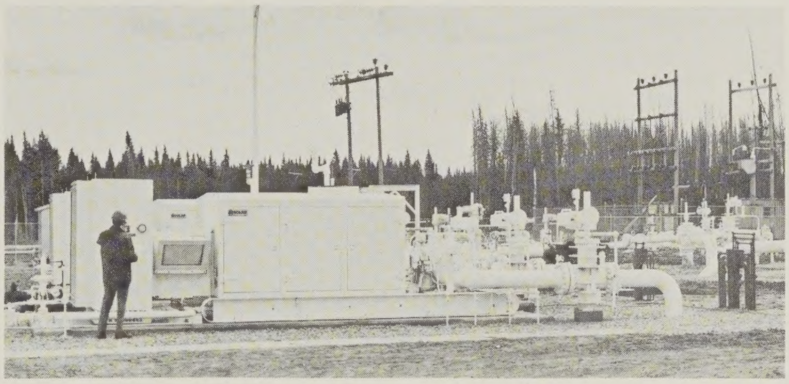
IH lawn & garden equipment, like the hydrostatic drive 129 Cub Cadet tractor, takes the work out of grounds maintenance for many thousands of home owners.



The Transtar 4270 and 4370 series, recent additions to the world's most complete truck line, were fully pre-tested under working conditions by fleets and operators. Their findings assured immediate acceptance of production models.



Advanced technology is an essential element in the design of modern farm equipment. An example of this is the 400 Cyclo planter, which uses air pressure to accurately place each individual seed.



Solar turbine engines, shown here pumping crude oil in Alberta, are used for both standby and primary power sources in many industries where reliability is of main concern.

Highly versatile, International excavators, on tracks or rubber tires, give high productivity in a wide range of applications from trenching to tree felling.

Pacific trucks, well known at home and abroad, are engineered and built to meet individual customer job requirements. This P-16 model, for export, is equipped with right hand drive.

INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED
208 Hillyard Street, Hamilton, Ontario

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